

ATRS Executive Director Update

August 8, 2011

As a new school year begins, this executive director update on the trust fund and a few general issues might be helpful. ATRS staff wishes all ATRS members and employers a very successful new school year.

Fund Actuarial Valuation for the 2010/2011 Fiscal Year Is Now Underway

ATRS continues to compile final financial results for the fiscal year that ended June 30, 2011. Some assets like real estate and private equity holdings take a few months to get a final value as of June 30th. The ATRS actuarial valuation will be based upon the value of the ATRS trust fund as of June 30, 2010. Remember, the ATRS trust fund belongs to the members of ATRS. The trust fund is used to pay current benefits that exceed the contributions received each year and the balance is held to cover future benefits that are earned by the members. The ATRS Board and ATRS staff work to obtain quality returns to ensure the financial strength and stability of the trust fund to pay all current and future benefits earned by the members.

On June 30, 2010, the final valuation of the ATRS trust fund was just about \$9.85 billion dollars on an actual basis and \$10.8 billion on an actuarial basis. ATRS staff believes the final result for the actual value of the trust fund on June 30, 2011, will be approximately \$11.6 billion dollars. This means that ATRS likely grew in value by \$1.75 billion dollars in addition to having paid out close to \$250 million dollars from the trust fund to pay retirement benefits for 2010-2011. Therefore, the approximate total income generated from the trust fund during the fiscal year was around \$2 billion dollars.

Based upon the expected final value, it is estimated that the amortization period to pay off all the unfunded liabilities of ATRS will increase from the 52-year period that existed as of June 30, 2010, to a longer amortization period. An amortization period over 70 years would not be a surprise to ATRS staff. This is partly due to the smoothing of losses and gains over a 4-year period. Since two prior years had significant losses, those losses will dampen the overall actuarial status of the fund this fiscal year. After this fiscal year, ATRS should have a "net positive" balance of about \$650 million dollars to be smoothed in after this fiscal year. Plus the General Assembly passed an 18 bill legislative package in the 2011 session to trim about \$1 billion dollars in costs over the next 30 years.

ATRS also just finished an experience study that indicates the average retiree is living longer. The ATRS Board will set some economic assumptions in October to adjust the factors that establish the unfunded liabilities and amortization period to

pay the unfunded liabilities (currently 52 years). The adjustment in the factors should have little impact on the actuarial status of ATRS once it is fully implemented.

The Debt Extension and U.S. Credit Rating Downgrade No reason to panic

It has been an ugly time in the equity markets since July 22, 2011. The good news for members is that member benefits do not go up or down based on market returns. With the defined benefit plan of ATRS, members are steadily building value in the ATRS pension plan. ATRS has taken the investment risk for the members. Most of the current market fall is due to the length of time it took the federal government to extend the debt limit (raising the potential for a debt default) and the U.S. credit rating being lowered from its previous AAA rating to AA+ by Standard and Poor's (apparently due to the view that the federal government will not be able to approve a meaningful debt reduction plan).

Today the markets took a beating since this is the first market day after the credit rating reduction. The broad market averages closed down over 6% from Friday's close! ATRS staff follows all the market segments closely each day. ATRS staff estimates the loss in value of the ATRS Trust Fund from its June 30th value to be about **\$800 million dollars** as of Friday August 5th. The markets are reacting to events beyond corporate earnings and typical stock market movers. When fear and uncertainty enter the markets, it takes a while for calm and normal events to return to control. The market fundamentals are not really much different from the market fundamentals on July 22nd. The difference is just the fear and uncertainty by investors.

ATRS is well positioned for strong gains with its mix of global and domestic equities (stocks), fixed income investments (bonds and loans), real estate holdings, alternative assets, and private equity holdings to have a quality return from a well-diversified portfolio. The uncertainty in the markets cannot rule the markets for very long. Over time, the standard market movers will regain control. ATRS will navigate the market swings. The other good news is that ATRS is valued once a year for actuarial purposes. The next valuation date is almost 11 months away with plenty of time for the markets to return to normal.

ATRS remains focused upon finding the best managers and structuring investments to have quality returns with lower costs. The ATRS consultants have done an excellent job of assisting the ATRS Board in making quality choices to position ATRS to have greater opportunities at lower risk. ATRS, as a trust fund, remains strong and will continue to take any required action to maintain the financial strength and stability of the fund.

Administrative Notes

Address Change

If you have moved recently and not updated your new address with ATRS, please take a few minutes to contact ATRS for a form to provide your current address. ATRS strives to keep addresses current. In large mailings, ATRS has a significant amount of returned mail that ATRS attempts to process to obtain correct addresses. You may fail to receive important information on a timely basis if you do not keep your mailing address current with ATRS. At the beginning of the school year, several of you may have moved over the summer. Please double check and update your address if it has changed. Here is the link to the address change form on the ATRS website:

http://artts.gov/Forms/name_address_change_6.pdf

Name Change

Members may also have a name change. If your name has changed for any reason, ATRS would like to have your current last name. The change of name form can be mailed to you upon request or you can print it out from the ATRS website. Here is the link to the name change form on the ATRS website:

http://artts.gov/Forms/name_address_change_6.pdf

Contributory Election

If you are currently noncontributory and would like to be contributory and have not received any income from your school district since July 1, 2011, you may still have time to make an irrevocable election to become contributory. Once you have received any pay in the current fiscal year as a noncontributory member, then your election will not become effective until the beginning of the next fiscal year (July 1, 2012). If you would like more information on whether you can still make the election to be contributory this fiscal year, you can contact ATRS for more information.

Failure to Terminate

Remember all ATRS members who retire before age 65 have a separation period. The period is almost always a 6 month period. For members under age 65 with 38 or more years of credited service, the separation period is 1 month. For all new retirees under age 65 with less than 38 years of credited service, the separation period is 6 months. If you are a new retiree, do not go back to work, not even for one day, during any required separation period. This includes substituting, full time, part time, or working in a college, university, and/or post-secondary institution. If you have any question, ATRS will give you an answer in writing to help prevent any violation. Plus if you are reading this on behalf of an ATRS employer, ATRS will send a clearance form on new applicants to help your

school prevent new retirees from being hired during a separation period. If your school is not already participating, please consider doing so.

Now 160 workdays are required for a full year of service

The days of service to be credited with a full year of service is now 160 days, up from the previous 120 days. Members with at least 40 days will get $\frac{1}{4}$ year of service, with 80 days, $\frac{1}{2}$ year, with 120 days, $\frac{3}{4}$ year, and 160 days or more, 1 year. If you have questions, just contact ATRS.

T-DROP and Post 10 Year T-DROP Interest Helps Members The rate on both in this new fiscal year is 6%

Remember, both T-DROP and Post 10-year T-DROP participants will receive 6% on their T-DROP balances this fiscal year (payable July 1, 2012). The ATRS Board established a post 10-year T-DROP interest plan for members who had completed ten years in T-DROP but were not ready to retire. This plan allows the member to continue working without retiring and obtain an interest rate between 4% and 6% on their T-DROP balance at the end of each fiscal year until they do retire. Again, the interest rate for both T-DROP and Post 10-year T-DROP in the current fiscal year (2011/2012) will be 6%.

ATRS is Here to Serve You

As a new school year begins, ATRS staff stands ready to assist members in answering questions and providing assistance. If ATRS staff can be of service to you, please do not hesitate to call or come by. Remember, ATRS is open between 8:00 a.m. to 4:30 p.m. every week day and counselors are available at all times during these hours to provide assistance when a member either calls, schedules an appointment or drops in at ATRS for assistance. The contact numbers are, within the Little Rock area: 501-682-1517; and outside the Little Rock area: 800-666-2877. The general information email is: info@artts.gov or you can call me on my direct line at (501) 682-1820 or my cell (501) 318-5998, or email me at georgeh@artts.gov. In addition, if you use Twitter, you can follow events by finding the Twitter ID of ATRS or find George Hopkins in the Twitter directory. On Twitter, you will have access to day-to-day updates on ATRS happenings.